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STATE FOR WHA/CAR
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STATE PASS TO USAID FOR LAC/CAR
INR/IAA (BEN-YEHUDA)
COMMERCE/ITA/OTEXA FOR MARIA D'ANDREA
USTR FOR ABIOLA HEYLIGER
WHA/EX PLEASE PASS USOAS

E.O. 12958: N/A
TAGS: ECON ETRD KTEX
SUBJECT: HAITI'S TEXTILES: COMPETITIVE PROSPECTS FOR A
STRUGGLING SECTOR

REF: SECSTATE 138090

¶1. Summary: Haiti's textile sector has made a remarkable recovery following the steep decline after the political upheaval in February 2004. However, production figures through the first half of 2006 show a slight decrease in production. Industry association representatives told econoff that this is a result of persistent insecurity, which affects the factories and their employees directly and also reduces the likelihood of foreign investment. Also, banks charge a 30 percent interest rate for loans, which hampers efforts to re-build and re-habilitate factories, many of which are operating under-capacity. Despite local challenges, Haiti offers low wages and a close proximity to the U.S., both of which make Haiti competitive in the face of increased international textile production. End Summary

Textiles are 85 Percent of Haiti's Exports
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¶2. In response to reftel, post provides the following figures, based on information from the industrial association, the Haitian chamber of commerce and industry, the finance ministry, the United Nations Development Program and the central bank (figures are stated in U.S. millions of dollars; post estimated 2006 figures based on available data through June 2006):

-- Total industrial production: n/a
-- Total textile and apparel production: 441.6 (2005), 419.4 (2006, est.)
-- Textile/apparel share of host country imports: 10.5 percent (2005), n/a (2006)
-- Textile/apparel share of host country exports: 86.0 percent (2005), n/a (2006)
-- Export in textiles and apparel to the U.S.: 371.5 (2005), 366.3 (2006, est.)
-- Total manufacturing employment: 80,000 (2005), 75,000 (2006)

¶3. The Haitian textile sector made a notable recovery since 2004, with 2005 exports up by 15 percent to USD 371.5 million as compared to USD 316 million in 2004. In the first six months of 2006, textile exports are valued at USD 183 million and are expected to fall just short (by 1.5 percent) of 2005 export figures by the end of the year, due to four factory closings over the past year. Despite improvements in the

overall security climate, many of the factories are located in industrial parks surrounded by slums, including Cite Soleil, which were originally built to house factory employees.

Haiti Offers Low Wages and Close Proximity
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¶4. Textile factory owners and industry association representatives provided the following responses to questions outlined in reftel:

-- Haiti received almost the same number of contracts in 2006 as in 2005, although prices have dropped over the past decade due to international competition. Foreign investors have not pulled out of local production, where low wages and close proximity to the U.S. help Haiti remain competitive with Asia. However, some textile factory owners claim they will close or move if the security situation does not improve.

-- U.S. and European Union restrictions on certain exports of textile and apparel from China have not affected Haitian textile export prospects. The GOH is not considering implementation of any measures to reduce the growth of Chinese imports in the textile sector. (Note: On the contrary, Haitian textile factory owners await U.S. Haitian Hemispheric Opportunity Partnership through Encouragement Act (HOPE) legislation which would allow preferential treatment of Haitian exports made of third-country (primarily Asian) fabrics. Currently, they rely heavily on textiles from the U.S. and the Dominican Republic, where prices are comparatively very high. End note.)

-- With the exception of efforts to push HOPE legislation through the U.S. Congress, the Haitian government has not taken any steps to improve the country's competitiveness. Infrastructure, namely poorly-maintained roads and lack of electricity, a disabling security situation, and corrupt and inefficient customs, procedures raise the cost/time of doing business in Haiti significantly and lower its competitiveness even in comparison to other countries in Latin America and the Caribbean where wages are significantly higher. One factory owner told econoff that electricity costs make up 23 percent of his total costs because he cannot rely on generation from the state. (Note: There is one potential improvement: the GOH recently inaugurated its "one-stop" investment promotional office to facilitate the investment process and to act as an intermediary between investors and the Haitian government. End note.)

One area where the GOH could intervene is the banking sector. Many of the textile factories have been forced to close or downsize several times due to re-occurring political upheaval over the past two decades. In order to reach capacity, industry representatives claim they need access to cheaper loans -- current interest rates on long-term loans are above 30 percent -- in order to rebuild.

-- Haiti currently benefits from three preferential trade programs: the Caribbean Basin Initiative, the Caribbean Basin Trade Partnership Act, and the Lome Convention Trade Advantages. However, advocates in the industry sector claim that the passage of HOPE legislation would be the greatest benefit to Haiti's textile sector, because it would open up a greater part of textile exports to preferential trade agreements. The industry association also said that any sign from the USG to encourage investment in Haiti would be welcome.

-- Increased global competition has not affected the local labor conditions. Haiti has the lowest wages in the western hemisphere: minimum wage is 70 Haitian gourdes (about USD 1.75 per day) but most textile workers make between 100 and 175 Haitian gourdes (USD 2.50 - 4.00) per day based on production.

Haiti's Textile Sector: A History
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¶5. Before the 1991 embargo, the textile sector employed more than 150,000 workers in 118 factories. After the embargo ended in 1994, the sector grew again until 1999, when it employed around 80,000 workers. Since 2000, Haiti has not only suffered from increased global competition, but also the sector has faced the deterioration of the security climate. Without government incentives, the number of companies has decreased from 46 in 2000 to 17 in 2006, which includes the most recent closure of four companies.

Haiti Could be Competitive Again
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¶6. Given its low wages and the proximity to the U.S., Haiti can be competitive despite heightened global competition. According to some members of the Haitian industry association, the perception of instability and the lack of security in Haiti will not change; however, a large-scale government response to boost the private sector and encourage investments could overshadow the insecurity and instability. Furthermore, the industry experts pointed out that the passage of HOPE legislation would give confidence to U.S. investors, thereby increasing the factories, access to capital.

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